

USING BENCHMARKING AS A MANAGERIAL TOOL IN PUBLIC UTILITIES

Abstract

Benchmarking can be a powerful tool for managers to achieve improvement in public services, but used inappropriately it can be expensive and can fail to deliver benefits. The development of a benchmarking model which can be used for assessing performance in public utility service delivery to end-users (clients) can be a challenging process, as before setting up the indicators to be included in the matrix model, it is important to investigate the context in which the respective public utility service is provided. Management model (including here direct or delegated public service provision), legislation, institutional framework, as well as other contextual aspects pertaining to the respective service conditions for delivery, are equally important variables to be taken into consideration when designing the most appropriate benchmarking system. Furthermore, usefulness of the benchmarking model must be acknowledged by both contractual parties involved - the public service provider and the client.

Keywords: public utilities, benchmarking, public policy cycle, key performance indicators, management model

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UTILIZAREA BENCHMARKINGULUI CA INSTRUMENT MANAGERIAL ÎN SERVICIILE DE UTILITĂȚI PUBLICE

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Rezumat

Benchmarking-ul poate fi un instrument forte pentru manageri, pentru a obține îmbunătățiri în serviciile de utilități publice, însă folosit în mod inadecvat poate fi costisitor și poate cu ușurință să eșueze. Dezvoltarea unui model viabil de benchmarking care să fie folosit pentru evaluarea performanței în furnizarea serviciilor publice către utilizatorii finali (cetățenii) este un proces plin de provocări, întrucât, înainte de a stabili indicatorii matricii de benchmarking, este important de investigat contextul particular în care respectivul serviciu de utilitate publică este furnizat. Modelul de management (incluzând aici tipul de gestiune – direct sau delegate), legislația, cadrul instituțional, precum și alte aspecte ținând de condițiile în care este furnizat serviciul, sunt variabile la fel de importante atunci când se concepe designul sistemului de benchmarking. Mai mult, utilitatea acestui model trebuie să fie recunoscută în egală măsură de ambele părți contractuale implicate – furnizorul de servicii publice și client.

Cuvinte cheie: servicii de utilități publice, benchmarking, ciclul politicilor publice, indicatori de performanță, model de management



1. GENERAL FRAMEWORK FOR USING KPIs IN PUBLIC UTILITY SERVICES MANAGEMENT – A PARRALEL WITH PUBLIC POLICY CYCLE

The past twenty years' evolution in the public management have generalized the performance/result – oriented based approach. The modern public management uses today a complex set of instruments, methods and techniques for this purpose, which represents the main framework for decision-making process, the public policy implementation and evaluation of performance against pre-determined benchmarks or expected/desired results. The public policy approach – generally defined as a “network of interrelated decisions regarding the choice of objectives, means and resources allocated for attaining these objectives in specific situations” (Miroiu, 2001, p. 9) can be extrapolated to the management of public services from a utilitarian perspective, as the mission of any public service is to serve the best general interest of the public in certain areas: from access to healthcare and education, to public transportation or sanitation.

From this perspective, any public service's mission is to properly respond to a problem – that is to ensure the citizen with the best quality of a public service for an affordable price. Such a process involves then a similar path to the policy cycle, following the main steps of problem formulation (who needs the service and in what conditions?), policy options (how can the service be best delivered for the fair price?), implementation (service delivery – type, agencies involved etc.), monitoring and evaluation (is the quality of the service delivered appropriate and proportional with the costs?).

In modern public management based on the policy cycle model, monitoring and evaluation are capital for measuring and analysing of results against expected ones; within these processes, we face the transition from the traditional approach based on control to an approach oriented towards data mining for assessing performance. The main argument for monitoring and evaluation is that of using relevant information and data for improving the implementation process of a public policy or public service.

Monitoring and evaluation are interdependent and inter-correlated processes: in the context of public policy cycle, these two stages are directly derived from the phases of problem formulation and policy options formulation. Monitoring is the process of periodic collection of information and analysis with the direct scope of backing the decision-making process by the responsible authorities, ensuring transparency and offering a ground base for future evaluation. Data and information collected in the monitoring stage are fundamental for the future evaluation phase. For the accuracy and representativeness of data gathered during the monitoring stage, a systematic and careful selection of variables is required, as monitoring acts like an early warning system with regards to the progresses of

the selected policy option implementation and it often points to potential problems or aspects that need to be re-evaluated.

In order to monitor the implementation of a public policy or the performance of a public service delivery and to assess results in relationship to the scope of the policy/service, one needs to elaborate a set of indicators from the incipient stage of implementation, such as to allow for the collection of representative information/data during the monitoring phase. The monitoring system does not necessarily need to use different indicators than the ones designed in the initial stage, but rather to identify the existing indicators and to maximize their use such as to have the most accurate picture of the results of the policy implementation.

An essential problem that occurs during the public policy formulation/public service delivery and which could have a significant negative impact over the design of the monitoring system and the selection of indicators is that of deficiency in defining objectives. Once the objectives, the results (outputs) and the effects (outcomes) are clearly set up, the next important step is choosing the right indicators against which performance of the public service delivery (in our case) will be monitored. These indicators can be:

- Quantitative (either numerical or percentage);
- Qualitative – can measure perception, describe procedures, behaviours etc.

Monitoring and evaluation are activities which are different from the classical control. Evaluation and monitoring based on key performance indicators have the role of providing information about the way in which a public service is being delivered to its beneficiaries and about its results.

The instrument of benchmarking, defined as “a process of measuring and comparing performance of an organization with comparable processes of other organization for helping the initial organization to identify vulnerabilities and propose solutions for redress/increase performances” (Ahmad and Benson, 2000, p. 23) fits best the monitoring and evaluation stage applied to public utility services sector, as the method involves a systematic comparison by analysing indicators precisely set for determining performances that should be equalled or overpassed and managerial practices that can be undertaken and adapted.

2. CHOOSING THE RIGHT VARIABLES FOR ASSESSING PERFORMANCE OF THE PUBLIC UTILITY SERVICES. A DISCUSSION ABOUT THE ROMANIAN CONTEXT OF PUBLIC UTILITY SERVICE DELIVERY

The benchmarking is not a mere comparison between indicators, but the study of processes, practices and methods used by performant organizations in the respective field of activity (Tudose, 2013). In the public utility sector, the challenges of using this instrument are higher due to particular national, regional or local contexts in which public utility services are delivered to clients, thus comparisons should take into account these specificities which further generate the need for choosing the right variables according to which performance can be measured. Performance improvement deals with discovering the difference in the underlying policies, processes and methods being used. Best practices are identified and these can be fine-tuned to suit context specific situations to enhance performance.

Before designing the set of indicators and identify the pre-existing (if any) benchmarks for any public utility service analysed, one must take into consideration a series of variables which may correlate with different levels of registered performance, such as (but not limited to):

- Type of public utility service management: the public utility services can be provided directly by a public entity (e.g. local councils), through specialized departments or through public companies controlled by the public authority – we shall call this the model of direct management (ro: gestiune directă/în regie). Also, the local authority may decide to delegate the service provision an external agency, most frequently through a concession contract or service delivery contracts, which are specifically regulated by the legislation – we shall further refer to this model as delegated management (ro: gestiune delegată).
- Legislation regulating the public utility services sector: In Romania, the legislation regulating the public utility services includes a wide array of laws establishing the general framework for providing public services (Law no. 51/2006 for public utility services), but also specific pieces of legislation for each of the 8 public utility services defined by Law no. 51/2006, namely: (1) water supply, (2) sewage and purge of waste waters, (3) collection and drainage of pluvial waters, (4) production, transport and distribution of heating, (5) sanitation, (6) public and private territory of administrative territorial units planning, (7) public lighting, (8) local public transportation. Furthermore, at local level, public authorities have the autonomy or organizing the public utility services delivery based on the principles and conditions stipulated in the legislation and may design specific conditions for service delivery – either directly or delegated (through concession contracts); such conditions are to be included in Standing Orders of the

service, which must be approved by a Central Government authority – the National Authority for Public Utility Services Regulation (ro: Autoritatea Națională de Reglementare pentru Serviciile Comunitare de Utilități Publice).

A particular attention when analysing legislation applicable to sectoral public utility services is required in the case of those services that are equally subject to specific conditions imposed by EU Directives – such as the case of water supply, drainage of wastewaters, waste management – which shall be directly reflected in any benchmark instrument designed for assessing performance in delivering these services.

- Institutional system: under the institutional component it is important to clearly identify competences (and their limitations) of the regulatory and control agencies and those of the executive bodies responsible for providing public utility services to end – users (clients) in order to better understand where can improvements take place after monitoring and evaluation (benchmarking process) of a particular public utility service. At the same time, the level of decentralization of the public utility services is equally important when choosing to use benchmarking model, as there are differences between the public utility services mentioned above in terms of decisional autonomy – ranging from full decentralization (e.g. local public transportation) to still centralized management (e.g. heating).

All three components identified above – model of service management, specific legislation and institutions involved in regulating, controlling/monitoring and delivering public services are equally important variables that should be considered in establishing a valid benchmarking model for a particular public utility service, while other conjectural/contextual ones may be also incurred for analysis of particular services (e.g. size of the administrative – territorial unit/population benefiting from the respective service, availability of European funds for investment in public utility service infrastructure, rural or urban localization, relief etc.). Given the wide spectrum of variation of these dimensions from one country/region to another, comparisons between benchmarking models used by different public administrations in EU countries must acknowledge this differences and explain the influence of the variables of the performance of the service assessed based on tailored indicators. However, any attempt to establish a set of key performance indicators should also consider the general principles of public service delivery, namely: universality, continuity (from a qualitative and quantitative perspective), adaptability to clients' needs and long term provision, equal and non-discriminatory accessibility and transparency and consumer protection.

Specialized literature on establishing generally valid benchmarking models for public utility services is rather scarce, as there are no common general standards perceived as being acceptable in all

administrative or economic contexts, pertaining to the variables already mentioned above or to other dimensions (e.g. the level of affordability – that is paying a reasonable price for a quality public utility service, varies significantly across countries and also in-country).

One of the well-known benchmarking models, named Best Valued was introduced in 1999 by the UK Government and was imposed to the local governments, aiming to improve the cost and quality of local services. Four elements designed this model: the rule of 3 Es (economy –efficiency and effectiveness) should be apply continuously in service delivery; the rule of 4Cs, that imposed the comparison of service provision with other private or public providers, consultation with local business and community, competition in services provision and challenger the reasons and the methods of provision; setting a regime of audit and a performance measurement, which had to demonstrate each year a decreasing of costs and an increasing of quality; a direct relation between performance measurement and rewards in case of success or sanctions in case of failure, which could imply the UK Government intervention. (Boyne, 1999)



FIGURE 1 - THE ELEMENTS OF A BENCHMARKING PROCESS
 Source: UK Audit Commission, 2000

In this model, 90 indicators were defined in order to measure local governments performance. The Audit Commission had annually collect and audit data monitored for 12 public services and guided the local governments in reporting the Best Value Performance Indicators (BVPIs). Four areas were covered by BVPIs: strategic objectives of each service, service delivery outcomes, services quality, fair access to the service. This top approach of performance measurement was used only eight years and revealed its benefits, but also its limits, because being imposed by central government, it was view as a formal control. It was replaced by a National Indicator Set (NIS), which contained a smaller number of indicators (198), agreed by Central Governments in partnerships with local governments (Department for Communities and Local Government London, 2008). After 2010, this top-down approach was replaced with a bottom-up approach, which consisted in a simple list of data requirements from the local governments.

In conclusion, as Vries and Nemec (2013) observed, the performance measurement and performance management are typical tools of New Public Management, but such tools should be implemented carefully in transitional economies . In such countries , as Nemec and all(2008,p.102)) revealed, the performance –learning process is recommended to begin from benchmarking and not from strict performance –based financing scheme, due to the fact there is a lack of performance based culture in public sector.

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